

Message Text

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C O N F I D E N T I A L MADRID 7060

E.O. 11652: GDS

TAGS: ECON, SP

SUBJ: UNDER SECRETARY OF COMMERCE'S VIEWS ON THE ECONOMY

1. DURING COURSE OF COURTESY CALL BY CHARGE ON SUB-SECRETARY OF ECONOMY, EDUARDO PENA, LATTER TOOK OCCASION TO DISCOURSE AT SOME LENGTH ON CURRENT ECONOMIC/POLITICAL SITUATION AND PROSPECTS FOR COMING MONTHS. FOLLOWING ARE BRIEF HIGHLIGHTS OF WHAT HE HAD TO SAY.

2. AS A TRANSITIONAL GOVERNMENT, CURRENT GOS IS STRICTLY LIMITED IN WHAT IT CAN DO IN ECONOMIC FIELD.
SOLUTION TO SPAIN'S ECONOMIC PROBLEMS
GOES BEYOND TEMPORARY MEASURES AND REQUIRES FUNDAMENTAL STRUCTURAL CHANGES WHICH DO NOT REQUIRE THAT SPAIN'S SURPLUS LABOR BE ABSORBED BY REST OF EUROPE, THAT TRADE IMBALANCES BE MADE UP BY TOURISM, REMITTANCES AND EXTERNAL CREDITS, AND THAT THE GROWTH RATES OF THE SIXTIES BE MAINTAINED. SUCH STRUCTURAL CHANGES ARE OBVIOUSLY BEYOND THE REACH OF A GOVERNMENT WHICH DOES NOT HAVE AN ELECTORAL MANDATE. THE MEASURES IN GOS "ECONOMIC PACKAGE," LABORATOR, WERE DESIGNED TO KEEP THINGS COOL UNTIL ELECTIONS AND WERE NOT EXPECTED TO DO MORE THAN
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PROVIDE TEMPORARY RELIEF.

3. JULY AND AUGUST SHOWED A SHARP UPSWING IN EXPORTS WHICH HE HOPED COULD BE MAINTAINED THROUGH THE END OF THE YEAR. AFTER THAT TIME THE ADVANTAGE GAINED BY THE DEVALUATION OF THE PESETA WOULD BE DISSIPATED BY THE DOMESTIC INFLATION RATE AND SPANISH EXPORTERS WOULD BEGIN TO BE AT A COMPETITIVE DIS-ADVANTAGE. HE SURMISED THAT IF ANY ACTION WAS TAKEN VIA THE EXCHANGE RATE TO CORRECT THIS IT WOULD BE THROUGH THE "FLOAT" RATHER THAN FORMAL DEVALUATION. HE WAS OPTIMISTIC THAT SPANISH EXPORTERS WOULD BE ABLE TO TAKE FULL ADVANTAGE OF EXPORT OPPORTUNITIES WHEN THE WORLD ECONOMY RESUMED STRONG GROWTH. THEY HAD BEEN SURVIVING THE PERIOD OF RECESSION BY ACCEPTING LOWER PROFITS AND WERE BASICALLY IN GOOD SHAPE. HE ANTICIPATED THAT THE CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT FOR THE YEAR MIGHT BE AROUND \$3 BILLION, LESS THAN MORE PESSIMISTIC EARLIER ESTIMATES.

4. THE HIGHLY INFLATIONARY GOS BUDGET DEFICIT WAS NOW RUNNING CONSIDERABLY LESS THAN EXPECTED BEFORE THE REMEDIAL MEASURES RECENTLY TAKEN. RECENT COST-OF-LIVING INCREASE FIGURES WERE SOMEWHAT HEARTENING. THE RECENT INCREASES IN CUSTOMS DUTIES HAD BEEN AIMED PRINCIPALLY AT PROVIDING REVENUES TO IMPROVE THE GOS CASH FLOW, AND WERE FOR A SIX MONTHS PERIOD. THERE HAD BEEN NO NEGATIVE REACTIONS FROM OTHER GOVERNMENTS OR INTERNATIONAL ORGANS.

5. A STRONG PROGRAM ON ENERGY CONSERVATION WOULD BE ISSUED SHORTLY COUCHED IN TOUGH TERMS TO COPE WITH THE SPANIARDS' TRADITIONAL INCLINATION TO IGNORE GOVERNMENT AUSTERITY PROGRAMS. IT WAS LONG OVERDUE, IN PENA'S VIEW.

6. THIS FALL'S WAGE NEGOTIATIONS WERE A SOURCE OF CONSIDERABLE PREOCCUPATION TO THE GOS AND MUCH THOUGHT IS BEING GIVEN TO HOW TO COPE WITH THEM. ABOVE ALL THE GOS WISHES TO AVOID "SOCIAL CONFLICT" IN THE PRE-ELECTION PERIOD, BUT ALSO IS MINDFUL OF THE NEED TO DAMPEN DOWN INFLATION. ONE THOUGHT WHICH APPARENTLY HAS A NUMBER OF PROPONENTS IS A GOS-DECREED EXTENSION OF THE EXISTING LABOR CONTRACTS WITH A WAGE INDEXATION PROVISION SUBJECT TO PERIODIC REVIEW. THIS WOULD HAVE THE DISADVANTAGE, THE CHARGE NOTED, OF TENDING TO CONFIDENTIAL

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BUILD INFLATION. THE ADVANTAGES FROM THE GOS POINT OF VIEW WERE THAT OF CONTINUING ALREADY AGREED-UPON PROVISIONS AND PROCEDURES AND, IF ACCEPTABLE TO LABOR -- WHICH HAS NOT BEEN ASCERTAINED, OF AVOIDING POTENTIALLY CONTENTIOUS INDIVIDUAL NEGOTIATIONS THAT WOULD PROBABLY LEAD IN ANY EVENT, TO LARGER WAGE INCREASES.

7. ACCORDING TO PENA, THE PRINCIPAL IDEA-MAN AND ARCHITECT

FOR THE SUAREZ GOVERNMENT'S ECONOMIC PROGRAM REALLY IS MINISTER
OF INDUSTRY PEREZ DE BRICIO, WHO IS STRONG-MINDED, PERSUASIVE
AND CLOSE TO THE KING.

8. COMMENT: PENA IS EXPERIENCED, KNOWLEDGEABLE AND IN
A POSITION TO BE ABLE TO JUDGE THE COURSE OF EVENTS BETTER
THAN MOST. HE MAY BE SOMEWHAT OPTIMISTIC ABOUT THE BALANCE
OF PAYMENTS AND COST OF LIVING, HOWEVER.
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